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Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NEA-07 IO-06 CIAE-00 DODE-00
NSAE-00 OMB-01 STR-02 INR-05 PA-01 PM-03 NSC-05
TRSE-00 EB-04 L-01 SP-02 /060 W
----------011745 292212Z /75
R 281836Z JUL 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 8147
ALL EC CAPITALS
AMEMBASSY BELGRADE
AMEMBASSY CAIRO
AMEMBASSY JIDDA
AMEMBASSY TEHRAN
USMISSION GENEVA

C O N F I D E N T I A L BRUSSELS 14778

LIMDIS

USEEC

DEPT PASS STR. GENEVA FOR MTN

E.O. 11652: GDS
TAGS: EEC, MTN, ENRG, YO, IR
SUBJECT: EC-YUGOSLAVIA AND IRAN AND EURO-ARAB DIALOGUE

REFS: (A) BRUSSELS 14548 (B) BRUSSELS 13878

1. COMMISSION VICE PRESIDENT FOR EXTERNAL RELATIONS HAFERKAMP RECEIVED ME JULY 27 FOR FINAL EXCHANGE OF VIEWS PRIOR TO AUGUST HOLIDAYS.

2. I ASKED HOW YUGOSLAVIA HAD GONE IN FOREIGN MINISTERS COUNCIL. HE REPLIED WITH OVER-ALL UPBEAT ASSESSMENT AND LONG EXPOSITION OF HOW HE HAD BEEN LED TO ADOPT THE CONFIDENTIAL

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APPROACH HE WAS FOLLOWING. THERE WAS NOTHING NEW IN THIS BUT HE CONFIRMED ONCE AGAIN THAT GIVEN CONFLICTING SIGNALS FROM BELGRADE HE HAD THOUGHT IT CRITICAL TO REACH UNDER-STANDING WITH THE YUGOSLAV PRIME MINISTER. THE KEY PRO-BLEM WAS TRADE. THE YUGOSLAV PROPOSALS WERE UNACCEPTABLE FOR VARIOUS REASONS AND AS WE KNEW THE USUAL TYPES OF COMMUNITY AGREEMENTS FOR ASSOCIATION FREE TRADE ARRANGE-

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MENTS, ETC., OR MEMBERSHIP ARE UNACCEPTABLE TO THE NON-ALLIGNED YUGOSLAVS. IN THESE CIRCUMSTANCES HE AND THE COMMISSION HAD DECIDED TO PROCEED WITH THE YUGOSLAV PRIME MINISTER'S BLESSINGS TO DEVELOP A SUI GENERIS AGREEMENT WITHIN THE FRAMEWORK OF THE COMMUNITY'S MEDITERRANEAN POLICY WHICH WOULD INVOLVE PREFERENTIAL TRADE ARRANGEMENTS.

3. I TOLD HAFERKAMP THAT HE HAD THE FULL SUPPORT OF THE AMERICAN GOVERMENT IN WORKING SKILLFULLY TO TIE YUGOSLAVIA CLOSER TO THE COMMUNITY, THAT WHAT HE HAD SAID ABOUT THE IMPORTANCE OF NEW PROVISIONS ON SOCIAL MATTERS INCLUDING WORKERS AND ADDITIONAL FINANCIAL ASSISTANCE WAS GREAT, BUT THAT I HAD TO TELL HIM THAT WE WERE CONCERNED ABOUT A FURTHER EXTENSION OF COMMUNITY TRADE PREFERENCES.

4. HE SAID HE UNDERSTOOD THAT CONCERN AND WOULD DO HIS BEST TO MANAGE THE ISSUE SO AS TO MINIMIZE OUR PROBLEMS. THERE WAS, FOR EXAMPLE, NO QUESTION OF THE COMMUNITY SEEKING REVERSE PREFERENCES INTO THE YUGOSLAV MARKET. WHILE SOME MEMBER STATES MIGHT THINK THIS WAS A GOOD IDEA, IT WAS RIDICULOUS AND HE COULD DEAL WITH IT BY EMPHASIZING THE FACT THAT THE COMMUNITY ALREADY HAD AN OVERWHELMING SUR-PLUS IN ITS BILATERAL RELATIONS WITH YUGOSLAVIA. HE ANTI-CIPATED THAT AS THE NEGOTIATIONS PROCEEDED THE INDUSTRIAL AND AGRICULTURAL DIRECTORATE GENERALS OF THE COMMISSION WOULD PRODUCE LISTS OF PRODUCTS ON WHICH FREE ENTRY OR CONFIDENTIAL

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PREFERENTIAL ENTRY WOULD BE GRANTED YUGOSLAVIA AND HE ANTICIPATED MUCH BACK AND FORTH WITH THE YUGOSLAVS BEFORE THESE LISTS WHICH HE THOUGHT WOULD BE ANNEXED TO THE FINAL AGREEMENT WERE AGREED UPON.

5. AT THIS POINT I SAID TO HIM THAT AS THE PROCESS WENT FORWARD I HOPED HE WOULD HAVE THE COMMISSION STAFF EXAMINE MOST CAREFULLY WHETHER OR NOT THE SAME BENEFITS COULD BE GIVEN YUGOSLAVIA BY PUTTING THESE PRODUCTS INTO THE COMMUNITY'S GSP SYSTEM. HE REPLIED THAT AN EARLIER EX-PLORATORY EXAMINATION OF GSP POSSIBILITIES HAD BEEN DIS-COURAGING BUT HE RECOGNIZED THE ADVANTAGES FROM A GATT LEGAL STANDPOINT OF USING GSP AND HE WOULD INDEED EXPLORE THE POSSIBILITIES, FOR WHILE HE WAS DETERMINED TO REACH A MUTUALLY SATISFACTORY AGREEMENT WITH YUGOSLAVIA HE WAS CONSCIOUS OF THE IMPORTANCE OF MINIMIZING THE POTENTIAL PROBLEMS WITH US AND WITH GATT.

6. AGAINST THAT BACKGROUND, I REMARKED THAT FOR THESE PROBLEMS TO BE MANAGEABLE IT WAS, IN MY JUDGMENT, HIGHLY IMPORTANT THAT THE COMMISSION AVOID ANY OTHER PROPOSALS FOR PREFERENTIAL TRADE ARRANGEMENTS AND THAT THE SPIRIT OF THE

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CASEY-SOAMES UNDERSTANDING BE OBSERVED. IN THIS CONNECTION I WAS DISTURBED AT RUMORS REACHING ME THAT THE PREFERENTIAL ASPECT OF THE IRANIAN ARRANGEMENT MIGHT ONCE AGAIN BE UNDER REVIEW AND SOLID INDICATIONS THAT COMMISSION STAFF WERE DEVELOPING PROPOSALS IN THE CONTEXT OF THE EURO-ARAB DIALOGUE FOR PREFERENTIAL TRADE CONCESSIONS IN RETURN FOR ARAB OIL SUPPLY ASSURANCES. HAFERKAMP TOOK MY POINT IMMEDIATELY AND INDICATED THAT HE COULD BE COUNTED UPON TO KEEP THESE MATTERS UNDER CONTROL. HINTON

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